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CITY CLERK'S OFFICE

LETTER TO COMMISSION

TO: Mayor Mattie Herrera Bower and Members of the City Commission

FROM: Jorge M. Gonzalez, City Manager

DATE: September 23, 2009

SUBJECT: **External Auditor's (McGladrey & Pullen) communication of certain matters related to the annual audit of the City of Miami Beach (the City) financial statements for the period ended September 30, 2009.**

Attached for your information is the external auditor's letter intended to communicate certain matters related to the planned scope and timing of the audit of the City's financial statements as of and for the year ended September 30, 2009.

The letter is dated September 16, 2009, is in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*. This letter discusses the following matters:

- Communications between McGladrey & Pullen and those charged with governance at the City;
- Independence policies and procedures at McGladrey & Pullen;
- The objective of the audit engagement to be performed by McGladrey & Pullen;
- McGladrey & Pullen's audit planning process and the concept of materiality in planning and executing the audit;
- The audit approach;
- Using the work of the City's internal audit department; and
- Timing of the audit.

If you have any questions or need additional information please contact Patricia Walker at 305-673-7574

JMG:PDW:aw

McGladrey & Pullen

Certified Public Accountants

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September 16, 2009

City of Miami Beach
1700 Convention Center Drive
Miami Beach, FL 33139

Attention: The Honorable Mayor and Members of the City Commission

This letter is intended to communicate certain matters related to the planned scope and timing of our audit of the City of Miami Beach, Florida ("the City's") financial statements as of and for the year ended September 30, 2009.

Communication

Effective two-way communication between our Firm and those charged with governance is important to understanding matters related to the audit and in developing a constructive working relationship.

Your insights may assist us in understanding the City and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate with us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures, your suspicion or detection of fraud or abuse, or any concerns you may have about the integrity or competence of senior management.

We will timely communicate to you any fraud involving senior management and other fraud that causes a material misstatement of the financial statements, illegal acts, instances of noncompliance, or abuse that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, professional employees of McGladrey & Pullen, LLP or RSM McGladrey, Inc. are not permitted to own any direct financial interest or a material indirect financial interest in a client or any affiliates of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with Firm policy. In addition, our policies restrict certain non-audit services that may be provided by RSM McGladrey, Inc. and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

Engagement Objectives

Our primary objective is to conduct our audit in accordance with auditing standards generally accepted in the United States of America which may enable us to express an opinion as to whether the financial statements are fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit is planned to provide reasonable, not absolute, assurance that the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse. We will also conduct an audit so as to satisfy the requirements of *Government Auditing Standards* issued by the Comptroller General of the United States as well as the audit requirements imposed by the Single Audit Act and the U.S. Office of Management and Budget (OMB) Circular No. A-133 and OMB's Compliance Supplement, *Audits of States, Local Governments, and Nonprofit Organizations* and Chapter 10.550, *Rules of the Auditor General* of the State of Florida. We have provided you with a copy of our current arrangement letter with the City, which is enclosed.

The Audit Planning Process

Our audit approach places a strong emphasis on obtaining an understanding of how your entity functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your operations. The development of a specific audit plan will begin by meeting with you and with management to obtain an understanding of business objectives, strategies, risks, and performance.

We will obtain an understanding of internal control over financial reporting and compliance with laws, regulations, and provisions of contracts and grant agreements to assess the impact of internal control on determining the nature, timing and extent of audit procedures, and we will establish an overall materiality limit for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error or to instances of noncompliance.

We will use this knowledge and understanding, together with other factors, to first assess the risk that errors or fraud may cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides us with parameters within which to design the audit procedures for specific account balances and classes of transactions. Our risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the City's internal control).

Similar assessments will also be made relative to compliance with laws, regulations, and provisions of contracts and grant agreements.

We will then determine the nature, timing and extent of tests of controls and substantive procedures necessary given the risks identified and the controls as we understand them.

The Concept of Materiality in Planning and Executing the Audit

In planning the audit, the materiality limit is viewed as the maximum aggregate amount, which if detected and not corrected, would cause us to modify our opinion on the financial statements. The materiality limit is an allowance not only for misstatements that will be detected and not corrected but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. At the end of the audit, we will inform you of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

Our Approach to Internal Control and Compliance Relevant to the Audit

Our audit of the financial statements will include obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Our review and understanding of the City's internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.

We will issue reports on internal control related to the financial statements and major federal programs and state projects. These reports describe the scope of testing of internal control and the results of our tests of internal controls. Our reports on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with the requirements of the Government Auditing Standards issued by the Comptroller General of the United States, the Single Audit Act, and the U.S. Office of Management and Budget, (OMB) Circular No. A-133.

We will issue reports on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements and any noncompliance which could have a direct and material effect on each major program. Our reports on compliance will address material errors, fraud, abuse, violations of compliance requirements and other responsibilities imposed by state and Federal statutes and regulations and assumed contracts; and any state or Federal grant, entitlement or loan program questioned costs of which we become aware, consistent with the requirements of the standards and circular identified above.

Using the Work of Internal Auditors

As part of our understanding of internal control, we will obtain and document an understanding of your internal audit function. We will read relevant internal audit reports issued during the year to determine whether such reports indicate a source of potential error or fraud that would require a response when designing our audit procedures. Because internal auditors are employees, they are not independent and their work can never be substituted for the work of the external auditor. We may, however, alter the nature, timing and extent of our audit procedures based upon the results of the internal auditor's work or use them to provide direct assistance to us during the performance of our audit.

Timing of the Audit

We have scheduled final field work commencing the week of January 4, 2010. Management's adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to the City.

This communication is intended solely for the information and use of the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

McGladrey and Pullen, LLP

A handwritten signature in black ink, appearing to read "Donovan Maginley". The signature is written in a cursive, somewhat stylized font.

Donnovan Maginley
Director

cc: Patricia D. Walker, Chief Financial Officer
Jorge M. Gonzalez, City Manager